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DISCUSSIONS ON THE HAIFA REFINERY

Mr. Wright said that the aim of the U.K. Government was to get the refinery working at full capacity as soon as possible. It had been estimated that failure to reopen the refinery would represent a drain on the U.K.'s dollar resources amounting to $50 million a year. Every effort had been made to induce the Iraqi Government to allow oil to flowagain through the pipeline. This was undoubtedly to the economic advantage of Iraq. The U.K. Government had, however, failed and it was a case where economic arguments carried no weight against political considerations. The Iraqis would only reopen the pipeline if the Egyptian Government first allowed oil tankers to pass through the Suez Canal. The U.K. Government had also exerted pressure on the Egyptian Government with a view to their permitting the passage of tankers. The Egyptian Government had relaxed their restrictions on shipping but the relaxation did not extend to tankers. Both the Egyptian and the Iraqi Prime Ministers were afraid to take the first step and to incur the charge of being the first to break the boycott. Attempts to arrange for action simultaneously by the Egyptians and Iraqis had also failed. The most recent development was a suggestion by the Iraqi Prime Minister that a tanker should take oil from Tripoli (Lebanon) to Haifa and the Lebanese Government was being approached in this connection. No reply had yet been received. Mr. Wright inquired whether the State Department would consider the desirability of instructing its representative in Beirut to support our representations to the Lebanese Government. There was also the possibility that the Israelis would raise in the Security Council the question of Egyptian refusal to allow the free passage of tankers in the Suez Canal. This might have the unfortunate result of making the problem a purely Israeli-Egyptian issue. In all the representations to the Arab Governments the U.K. Government had emphasized that the reopening of the Haifa refinery would be to the benefit of the U.K. and Europe and that the advantage to Israel would be relatively small. There was also the point that such action would give rise to a debate on Palestine in the Security Council. The U.K. Government was as anxious to avoid this as to avoid a general Palestine debate in the General Assembly.

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2. In the course of discussion Mr. Wright said that consideration had also been given to a suggestion that the hand of the Egyptian Government should be forced by routing a tanker through the Canal. This had not been proceeded with as it was anticipated either (i) the Egyptian authorities would stop the ship in which case it would have to be sent back or (ii) the ship would have to be provided with armed guards and this would result in a major Anglo-Egyptian clash or (iii) if the Egyptians stopped the ship the matter might be referred to the Security Council which was also undesirable. Mr. Wright also referred to the Egyptian Prime Minister's suggestion that tankers after passing through the Suez Canal should secretly be re-routed and sent to Haifa. It had not been considered advisable to proceed with this. Mr. Wright said it was hoped that U.S. representatives in the capitals concerned would continue to support our representations and enquired whether the State Department had any suggestions to make.

3. The United States views as they emerged from discussion are as follows:-

Unlike the U.K. and France the U.S.A. was not directly concerned in the reopening of the refinery and the representations which the U.S. Government had already made in Iraq and Egypt had been in the nature of a supporting action. The U.S. Government fully agreed regarding the desirability of reopening the refinery at the earliest possible date and also regarding the need for continued pressure on the Governments concerned. Pressure should not, however, be made to the extent of bringing about a major clash as the risk to oil investments generally would be too great. Anglo-Egyptian relations might be gravely prejudiced and the United States strategic position in the whole area might be seriously impaired. The reaction in Iraq to shipments of oil from Tripoli to Haifa under U.S. - U.K. encouragement might be serious. It was also felt that the adoption of the "switching" device suggested by the Egyptian Prime Minister involved considerable risks. The proposal for establishing a free port under international control at Haifa was not considered a practical suggestion. Israel had indicated that as part of a general settlement, she would be prepared to give the Arab states free zones in the port of Haifa but this was another matter. It was thought possible that the operation of the refinery

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on the basis of oil imported from the Caribbean was a profitable proposition under existing world oil prices. American companies found it possible to ship crude oil profitably from the Persian Gulf to Philadelphia; the distance from the Caribbean to Haifa was less and although profits might not be as great as in the case of oil routed through the pipeline there should still be a margin and less risk would be involved. If the Arabs were shown that the refinery was a going concern they might in due course relent and lift restrictions. Finally it was suggested that if oil production in Iraq were speeded up, for example by the early start on the 30" pipeline, the Iraqis might be less intransigent. Reports that the oil companies were considering the postponement of the 30" pipeline were disturbing.

4. The conclusions which emerged from the discussion were:-

1. It was agreed that it was most desirable that the refinery should be reopened at the earliest possible date.

2. That pressure on the Governments concerned should be maintained but a major clash should be avoided.

3. The United States would continue to instruct its representatives in the capitals concerned to make appropriate supporting representations to the governments concerned.

Approved by Mr. McGhee and Mr. Wright
November 20, 1949